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August 25, 2003

VIA HAND DELIVERY

Carole J. Washburn
Office of the Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Puget Sound Energy, Inc.
WAC 480-107-060 Proposed Request for Proposals for Wind
Power Resources**

Dear Ms. Washburn:

Enclosed for filing are an original and 19 copies of a Request for Proposals for Wind Power Resources submitted by Puget Sound Energy, Inc. ("PSE") pursuant to WAC 480-107-060, along with an electronic copy of this filing on the enclosed disc.

The Commission's Competitive Bidding Rules, WAC Chapter 480-107

The Commission established WAC Chapter 480-107 (previously WAC Chapter 480-105) in order to comply with the Public Utility Regulatory Policies Act of 1978 (PURPA), 16 U.S.C. § 2601 *et seq.* and regulations promulgated thereunder by the Federal Energy Regulatory Commission (FERC) in 18 C.F.R. Part 292.

As a means of implementing PURPA, the commission established the bidding rule as a preferred forum for avoided cost determination, replacing what was previously known as administratively-determined avoided costs. The commission's intent in establishing a market test for determining these avoided costs was to generate bids between PURPA developers that were lower than the administratively-determined costs, and to allow the utilities to purchase only the supply of resources needed.

In re Regulation of Electric Utilities in the Face of Change in the Electric Industry, Docket No. UE-940932, 1998 Wash. UTC LEXIS 161, at *24, 184 P.U.R. 4th 409 (April 22, 1998). In addition, the rules are meant to ensure that utilities compare

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opportunities in competitive wholesale markets with the cost of utility owned projects. *Id.*, 1998 Wash. UTC LEXIS 161, at *21-22.

The solicitation process begins when an electric utility issues a request for proposals ("RFP") that has been approved by the Commission. The utility is required to file a draft RFP with the Commission within ninety days of the utility's filing of its final least cost plan. Interested persons have sixty days from the draft RFP's filing date to submit written comments to the Commission on the proposed RFP, and the Commission then has thirty days to take action on the proposed RFP. WAC 480-107-060. However, WAC 480-107-170(3) provides that the Commission "may grant such exceptions to these rules as may be appropriate in individual cases."

PSE's Least Cost Plan, Wind Power Resource RFP and Resource Acquisition Planning Horizon

On April 30, 2003, PSE filed its Least Cost Plan ("LCP") with the Commission, pursuant to WAC 480-90-238 and 480-100-238. Among other things, the LCP finds that PSE has needs for new electric resources over the next several years. *See* LCP, Chapter I at 2-3.

Since April 2003, PSE has performed additional assessments of conservation potential in its service area and an integration analysis to reassess the conservation acquisition targets set forth in the LCP. *See* LCP, Chapter I at 3-4. PSE has also updated certain modeling assumptions used in its LCP to reflect current information and conditions, with input from stakeholders. By no later than August 31, 2003, PSE will be filing an updated LCP that incorporates revisions based on these additional efforts.

On July 28, PSE requested a four-week extension of the ninety-day deadline for filing its proposed RFP with the Commission, to August 25, 2003, in order to permit PSE sufficient time to update its April 30 LCP, and to develop its proposed RFP filing. The Commission has not yet acted on PSE's request.

PSE's LCP concludes that PSE has needs for a diverse range of resource types, including wind-powered generation. A diversified long-term resource strategy that includes several types of resource technologies spreads out and mitigates the risks associated with each specific type of technology. *See* LCP, Chapter XI at 35-36; LCP, Chapter XII at 17, 26-31; LCP Chapter XIII at 1-5.

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PSE has been exploring opportunities to meet its near term needs consistent with least cost principles outside the WAC 480-107-060 process. *See* WAC 480-107-001(1) ("These rules do not preclude electric utilities from constructing electric resources, operating conservation programs, purchasing power through negotiated purchase contracts, or otherwise taking action to satisfy their public service obligations.") PSE is currently in a competitive solicitation and negotiation process which may result in a potential acquisition of one or more generation resources. Any such acquisition will only meet part of PSE's total need and perhaps only part of the need identified for combustion turbine plant.

In order to meet the resource portfolio needs set forth in the LCP, PSE also proposes to issue multiple RFPs over the next year or two that will allow the Company to review different types of generation opportunities for particular needs and timeframes.¹ Specifically, PSE plans to issue the following:

1. Wind Power Resource RFP (Fall 2003)
2. Two or more Stable Variable Cost Thermal Resources RFPs, including but not limited to coal and large PURPA projects (Fall 2003/Winter 2004)
3. Other Renewables and Small Thermally Matched Cogeneration RFP (early 2004)
4. Potential Seasonal Shaping RFP(s) (2004)
5. Possible Second Wind RFP (2004 or 2005)

More information about PSE's resource portfolio acquisition plan and its relation to PSE's LCP is found in the description of PSE's Resource Acquisition Program, attached as Exhibit A to this letter. PSE's resource portfolio acquisition plan will be updated periodically, and the tentative schedule described above is subject to change as that updating occurs.

¹ Conservation resource opportunities are currently being assessed and developed in consultation with the Conservation Resource Advisory Group (CRAG). PSE will provide further information at a later date regarding its plan to address future capacity needs.

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As the first step of PSE's current resource portfolio acquisition plan schedule, PSE is filing herewith a proposed Wind Power Resource RFP. Although PSE believes that this Wind Power Resource RFP is substantially complete and ready for public comment and Commission action, PSE reserves the right to correct or supplement this RFP if it discovers any errors or omissions.

As described above, the Commission has authority to shorten the time for public comment on this RFP and otherwise expedite the process set forth in WAC 480-107 for issuing a final RFP. PSE believes that if the acquisition and construction of a wind power resource occurs in time to qualify for "bonus" depreciation under Section 168(k) of the Internal Revenue Code, it could reduce power costs over the life of a 150 mW nameplate project by approximately \$6 million, or \$2.00 per megawatt hour. Under the bonus depreciation rules, the owner of certain property may claim first-year depreciation equal to 50% of the property's cost, in addition to the regular depreciation allowable for the remaining 50% of the cost of the property. Generally, property must be placed in service by December 31, 2004 (or, for certain property with an estimated production period exceeding one year, December 31, 2005) in order to qualify for bonus depreciation. In any event, only costs incurred by December 31, 2004 are eligible for bonus depreciation. Accordingly, PSE would not object to expediting this process if the Commission and other interested parties would like to do so. Of course, there is no assurance that bonus depreciation could be obtained for any project that results from this RFP process even if the RFP schedule is expedited, due to potential constraints encountered in the development or construction process.

Please also note that PSE's Wind Power Resource RFP proposes to accept proposals from other utilities. PSE believes that consideration of proposals from other utilities and/or their affiliates may increase the number of qualified respondents and thus increase the overall creativity and competitiveness of the process. Pursuant to WAC 480-107-020(2), PSE requests that the Commission approve this aspect of its Wind Power Resource RFP.

PSE intends to file other proposed RFPs with the Commission as those RFPs are developed, in order to meet the schedule described above.

Estimated Generic Avoided Cost Schedule

PSE provides as Exhibit 3 to its Wind Power Resource RFP its estimated generic avoided cost schedule in order "to provide general information to potential bidders about the cost of new power supplies absent nonutility resources." WAC 480-

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107-050. These generic estimated cost schedules do not include imputed debt effects associated with power purchase agreements, counter-party credit issues and other security and control costs, or the costs of integrating a potential resource into PSE's system. Such costs will be considered in reviewing proposals, as described in the RFP.

For the Commission's convenience, PSE also provides as Exhibit B to this letter a checklist showing that PSE's proposed RFP satisfies the requirements set forth in WAC Chapter 480-107.

Efforts to Promote Public Awareness of Filing

In order to broaden awareness of this RFP filing among persons who may be interested, PSE has mailed a copy of this filing to representatives of stakeholders who participated in PSE's LCP process and to approximately 90 power marketing companies, utilities, and other entities involved in development or provision of electric energy resources. PSE will be distributing the filing to a variety of trade publications and will also post the filing on its website.

PSE will host a public meeting to discuss this filing and the proposed Wind Power Resource RFP on Monday, September 15, 2003 at 1:00 p.m. at The Summit Conference Center, Summit Ridge Building, Suite 150, 320 108th Avenue NE, Bellevue, WA, 98004.

PSE invites comments on its RFP and looks forward to working with Commission Staff, proposers and other interested parties to make this RFP process successful. Questions regarding this filing should be addressed to George Pohndorf, 425-462-3272. Questions regarding PSE's LCP, resource acquisition plan, or Wind Power Resource RFP should be addressed to Charles Black, 425-462-3081.

Thank you for your assistance.

Very truly yours,

Kirstin S. Dodge

Enclosures

EXHIBIT A

**Puget Sound Energy
Resource Acquisition Program**